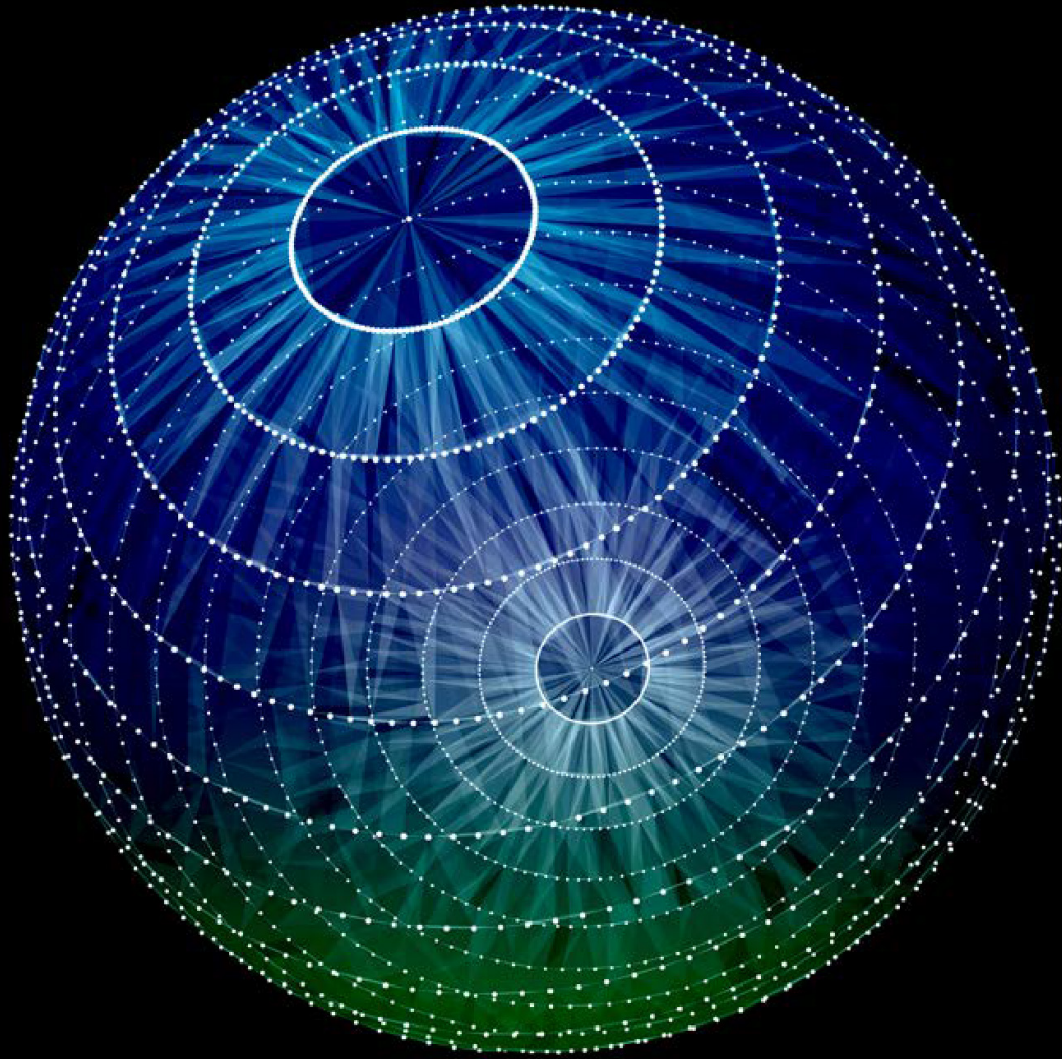


Deloitte.



The path to thrive:
M&A strategies for
a brave new world

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*A Charting New
Horizons report*

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Globally, companies responded and recovered from the pandemic conditions by launching significant metamorphoses, and mergers and acquisitions (M&A) played an instrumental role in this journey.

In 2021, companies spent an unprecedented \$5 trillion on M&A, the highest activity ever recorded.¹ Such unprecedented peaks meant 2022 was always going to be a hard act to follow, despite the challenging market conditions, around \$3.3 trillion worth of deals were announced, on par with the decade-long average. On the volumes side, some 55,375 deals were announced, the second-highest activity in the past 15 years.²

The path to thrive will be defined by two distinct capabilities: *resilience*, in which a company needs to secure its foundations, rapidly adapt, and emerge stronger; and *transformative growth*, in which it needs to reinvent the business to succeed in the new realities.

The past few years have demonstrated M&A strategies are firmly cemented as a fundamental part of the corporate arsenal, both in defense to preserve value and in offense to drive growth.

The M&A markets are also highly resilient. Our analysis of the nearly 40 years of historical M&A data shows adverse market conditions are a short-term drag, and M&A volumes tend to recover rapidly once the uncertainty subsides. Hence, we anticipate new M&A strategies will emerge and play a central role in helping companies fortify their gains, accelerate change, and capture market leadership.

In parallel, technology-led disruption is fueling cross-sector convergence, leading to unique opportunities to create new businesses and market segments. These dynamics have necessitated the expansion of traditional M&A strategies to include collaborative structures such as joint ventures, partnerships, and ecosystem alliances that are not bound by sector boundaries, instead focusing on common purpose and values.

The renowned statesman Benjamin Franklin observed that “by failing to prepare, you are preparing to fail.” As corporate leaders prepare their organizations to adapt and thrive in the new era, the capacity to balance resilience and transformative growth with corporate sustainability and trust will likely be the hallmarks of success.

Insight in brief

The emerging post-pandemic global landscape seems a world away from the past. The conflict in Ukraine and the unfolding human tragedy has fundamentally shifted the tectonic plates of geopolitics and could result in consequential changes to economies, global trade lanes, supply chain systems, and the green energy transition.

Corporate leaders need to adapt their organizations for these systemic and structural changes, against a backdrop of rising global inflation, interest rate hikes, supply chain realignment, increased regulatory hurdles, and renewed activist pressures. As part of this reset, they should also anticipate greater public scrutiny of corporate environmental, social, and governance (ESG) responsibilities and investor expectations, to deliver profits with purpose.

In retrospect: Evolution of the M&A wave (2021–22)

In our previous M&A report,³ released at the onset of the pandemic, we anticipated this crisis was different from the one from that took place in 2008 and correctly postulated that M&A would play a central role in business response and recovery.

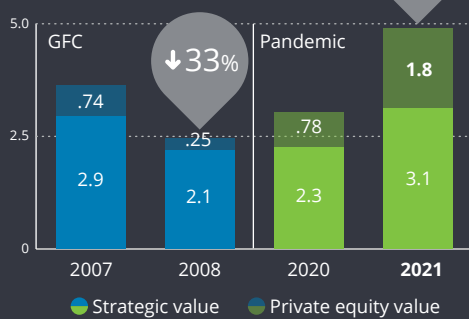
Back in 2008, the great financial crisis resulted in a sharp decline in M&A, and the markets did not recover until 2014. One of the main attributes of this market contagion was that it affected each sector fairly uniformly and therefore recovery cycles evolved over time given the symmetrical nature of the underlying causality. However, this time

around, the pandemic caused an asymmetrical market contagion as each industry and sector was affected differently, which resulted in varying recovery velocities of leading and lagging depending on the degree of impact and organizations' corresponding abilities to do something about it.

As a result, markets came roaring back, and in 2021–22 more than \$8 trillion worth of deals were announced, as companies took advantage of their strong cash reserves and favorable debt markets to make M&A central to business recovery.⁴

Lessons from two crises

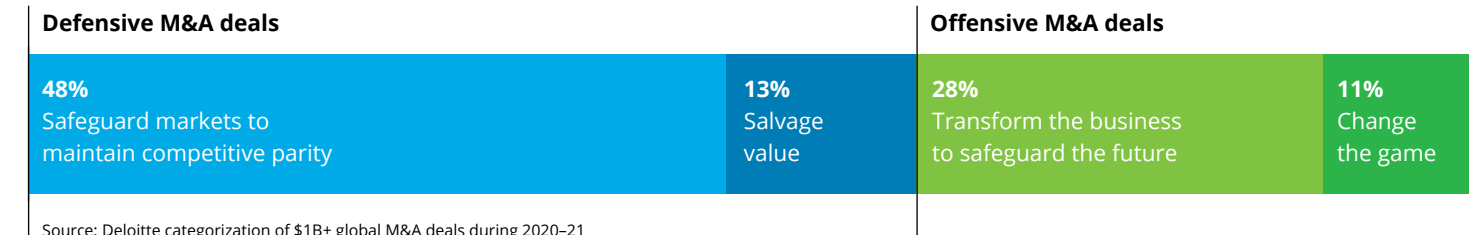
M&A trends compared between GFC and pandemic crisis (in trillions of US dollars)



Key drivers	Global financial crisis	COVID-19 crisis
Speed of crisis and recovery	Gradual buildup over 18+ months	Matter of weeks
Sector impact	Financial services was disproportionately affected	All sectors were immediately affected, notably travel, hospitality and retail
Corporate priorities	Salvage value Preserve cash	Business continuity Safeguard markets
Financial system	Under-capitalized banks that are unable to lend Weak IPO markets	More resilient and conduit for (government) lending Strong debt markets
M&A markets	Significant collapse in M&A markets, and it took 5 years to return to normal levels	M&A markets bounced back within two quarters, companies made M&A central to recovery, and 2021 hit an all-time record
Private equity	Retrenched from M&A markets, priority was portfolio refinancing	Private equity was one of the driving forces in the M&A markets
Post-crisis market conditions	Uncertainty in the new normal—markets constantly reacting to crises including eurozone debt, Brexit, etc., culminating with the pandemic crisis Ultra-low-interest-rate environment that lasted more than a decade and fueled the boom in M&A markets Tech sector led a record bull run in stock markets; it mirrored a strong IPO market Exponential growth for innovative market-platform startups	Beginning of high-inflationary and high-interest-rate environment Pressure on supply chain, commodity prices, and consumer spending Sharp decline in valuations and emerging signs of bear markets Corporates have significant cash reserves, strong balance sheets, and are prioritizing business resilience and strategic growth ESG emerging as a keystone investment theme along with game-changing disruptive technologies like artificial intelligence

Source: Deloitte perspectives and analysis based on data from Refinitiv and Bloomberg

Figure 1: Corporate M&A strategies in 2020–2021

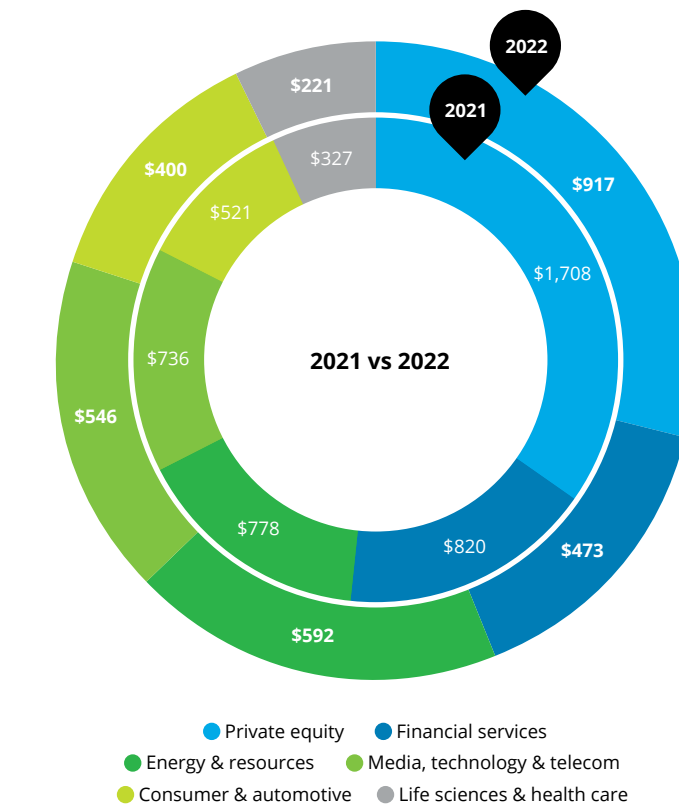


Source: Deloitte categorization of \$1B+ global M&A deals during 2020–21

In sectors such as aviation, automotive, retail, hospitality, and leisure that were disadvantaged by the macro conditions, some made significant defensive M&A moves to preserve value, while many made consolidation moves to safeguard their market positions. On the other hand, sectors including health, shipping, technology, and telecoms, which experienced a boost in demand, were on the offense and initiated major M&A transactions to boost revenues and capture new markets.

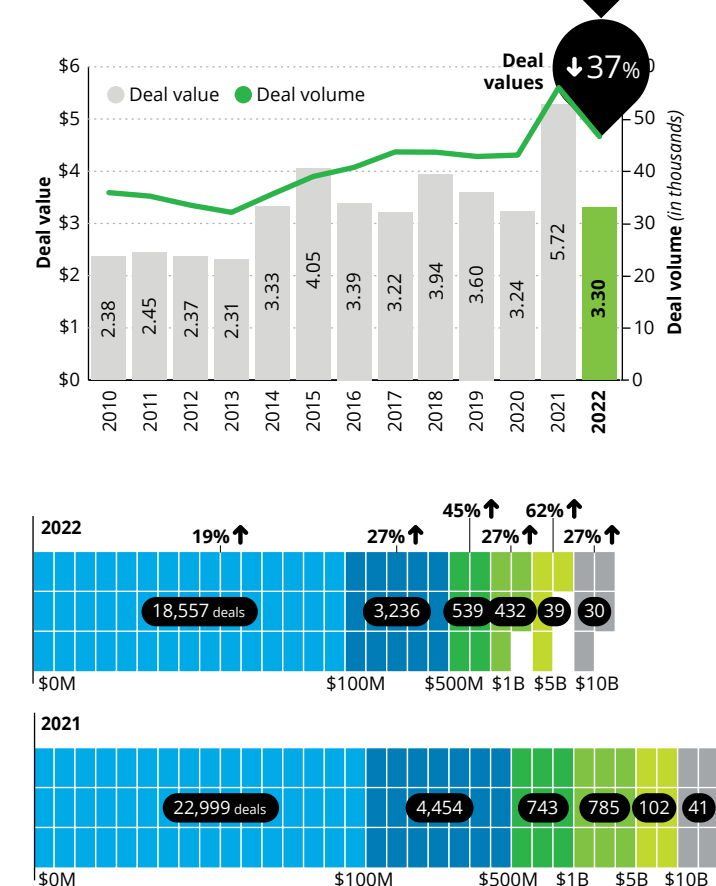
In a sure sign of confidence, around 211 mega deals (>\$5 billion) were announced,⁵ and in stark contrast to 2008, when private equity firms made a dramatic retreat from the markets and deal flows dropped by 65% to \$253 billion,⁶ this time they were one of the driving forces in the market, spending a record \$2.6 trillion on buyouts in the past two years.⁷

Figure 2: Global M&A sector breakdown (in billions of US dollars)



Source: Based on Deloitte's analysis of M&A data generated via the Refinitiv database on January 18, 2023, and subjective analysis of deal archetypes.

Figure 3: Global M&A volumes and values 2010–2022 (in trillions of US dollars)



Source: Based on Deloitte's analysis of M&A data generated via the Refinitiv database on January 18, 2023.

Prelude to the future: The resilience of M&A markets

Looking ahead, 2023 and beyond will no doubt be challenging for all sectors and for deal-making. The IMF projects just 2.7% growth, the weakest since 2001, except for the global financial crisis and the initial phase of the pandemic.⁸ The sharp revival of inflation has started to put pressure on consumer spending, while the steep rise in commodity prices, along with the inflationary pressures, is affecting most sectors either directly or indirectly and adding immense pressure to their already-stressed supply chains.

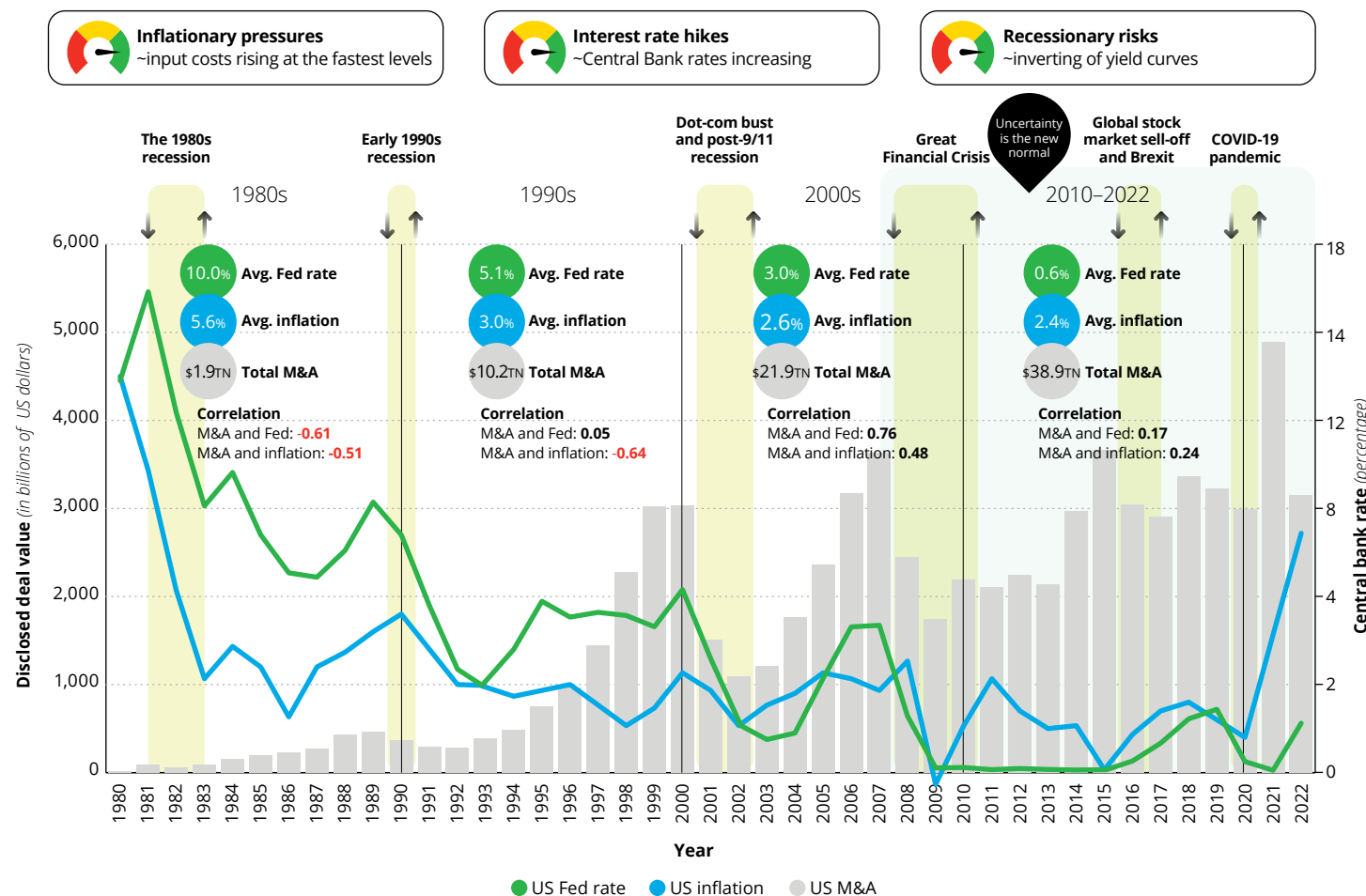
Additionally, the pandemic created a supply-side imbalance given the significant impacts across supply chains. This is in stark contrast to past market contagions that were largely demand-side driven, where consumer confidence and the inability to purchase drove market conditions. The persistent supply chain issues have continued to drive a demand/supply imbalance resulting in varying degrees of inflationary pressure.

Companies will do well to heed lessons from the 2008 financial crisis when many exited the M&A markets and lost out on unique value-enhancing deals. During periods of downturn, there are abundant opportunities for value-enhancing acquisitions because there are fewer competitive bidders, valuations are lower, and previously inaccessible companies turn into appealing, affordable targets. Analysis shows the deals made during downward cycles delivered three times more shareholder returns,¹⁰ and 2008–9 vintages produced some of the best returns for private equity firms.¹¹

In response, many central bankers have indicated they will continue to use tactical interest rate hikes to contain inflation. Such conditions will also put pressure on corporate profits, bonds, and stock prices and may prompt many companies to review cash flow forecasts and recalibrate the capital allocation, funding, and other financial strategies.

As such, there are opportunities inherent in the current cycle of market recalibration, and we have witnessed numerous past examples of companies being proactive during these shifts to take advantage of the broader uncertainty. Those companies that are on sound footing should seriously consider inorganic opportunities to take advantage of market conditions relative to their more disadvantaged competitors.

Figure 4: Impact of inflation, interest rates, and crisis periods on M&A markets



A Deloitte analysis of the nearly 40 years of historical US M&A, inflation, and Federal Reserve interest rate data shows inconsistent patterns of correlation between M&A and those macroeconomic indicators. In fact, during the five years to 1999, as well as in 2007, an upward M&A cycle was undeterred by both rising inflation and hawkish rate setting. We also found strong historical evidence that M&A markets tend to recover quickly from crisis conditions once uncertainty subsides as deal-makers rapidly adapt to the new environments and prefer to create their own momentum.⁹

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Note: For 2022, Inflation data is average of Monthly data for the period Jan–Nov 2022

Source: Based on Deloitte's analysis of M&A data generated via the Refinitiv database, US Bureau of Labor Statistics, and US Federal Reserve Bank on January 18, 2023.

Navigating toward new horizons

Maneuvering the headwinds

Rethinking funding strategies

Companies need to recalibrate their debt strategies to reflect the changing market conditions and prepare for possible lender limitations on cyclical businesses. There remains a substantial appetite for acquisition-related financing for transformational M&A, and we expect there will be a strong preference for defensive assets. Lenders will likely set a high bar on diligence for assets exposed to economic cyclicality, commodity prices, supply chain disruptions, and inflationary pressures. Furthermore, rising interest rates will place pressure on debt serviceability, potentially reducing the leverage capacity of many businesses, and could lead to an increase in the use of junior debt, in absence of additional equity.

In recent years, there has been strong growth in private debt providers, and Deloitte has been tracking this market over many years in our *Private Debt Deal Tracker* series.¹² The global private debt assets under management (AUM) stood at \$1.4 trillion in 2022.¹³ The market is dominated by scale players, who are likely to remain in favor with investors despite interest rate hikes, as many benefit from floating rate elements and hedge their risk with contracted floors. Private lenders typically provide more structural flexibility, speed of execution, and a range of innovative solutions such as NAV (net asset value) financing, which is gaining traction owing to greater uncertainty and stressed valuations. While historically such lenders have relied on private equity sponsors for deals, many are now consolidating their sector experience and targeting the corporate debt market for new opportunities.

Figure 5: Corporate cash reserves
(in trillions of US dollars)

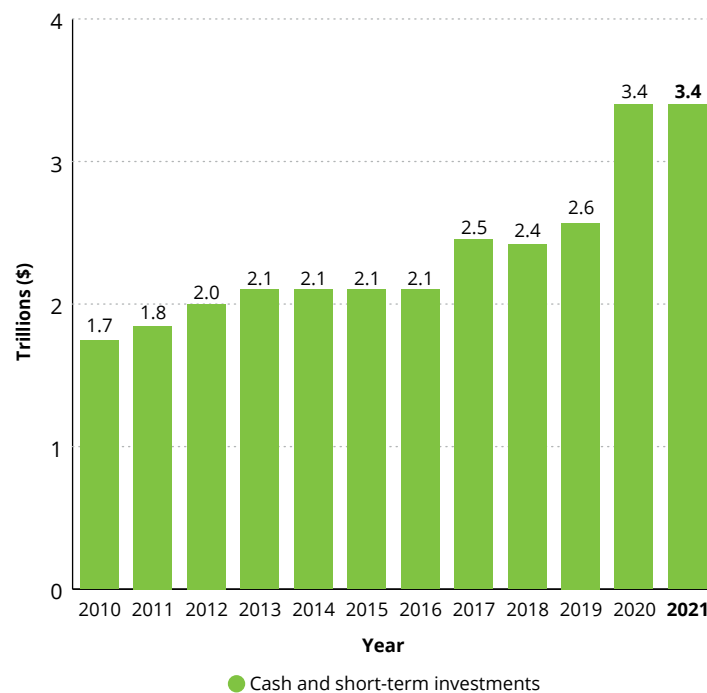
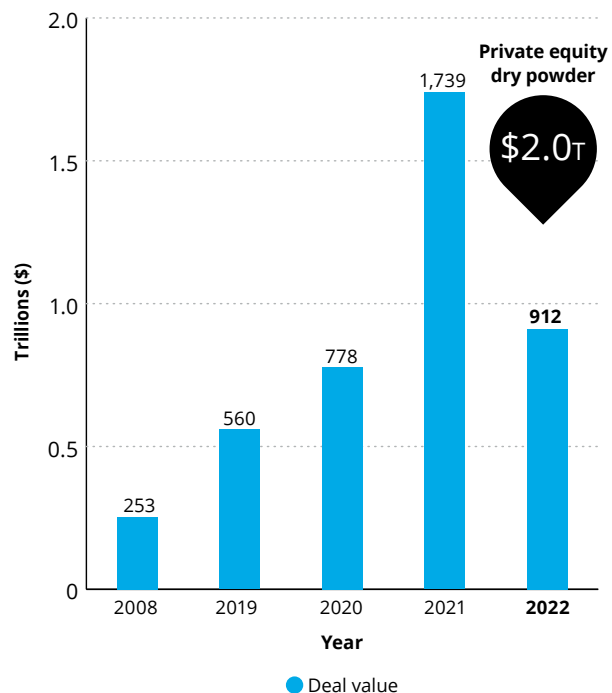


Figure 6: Strong appetite from private equity
(in trillions of US dollars)



Source: Based on Deloitte's analysis of M&A data generated via the Refinitiv database on January 18, 2023.

Capital allocation discipline comes to the fore

Deloitte recently conducted a global survey to understand shifting attitudes toward capital allocation. We found capital allocation discipline is high on the agenda for most of the companies, and 75% of the respondents identified strategic growth as the key focus of their capital allocation activities. ESG and digital transformation are also high on the agenda, suggesting continued confidence in the boardroom, despite the volatile market conditions.

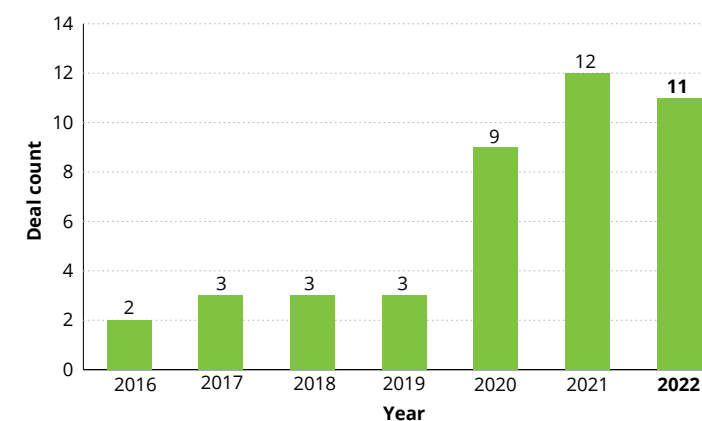
Our survey found that while most organizations have an investment process, some 60% of respondents lack a clear capital allocation framework to structure, prioritize, and guide deployment decisions. From our experience, the most effective capital allocators use a clearly articulated framework that is linked to the corporate strategy and key value drivers. When capital allocation discipline is embedded in the organization, decisions receive buy-in from across the business portfolio, and individual investments can be assessed against their impact on the overall portfolio's risk-adjusted returns. Scenario planning and data modeling are increasingly critical for optimizing the capital allocation process as it allows for plans to be flexible and adjusted based on portfolio performance.¹⁴

Regulatory hurdles

The elevated levels of M&A activity are catching regulators' attention, and amid severe scrutiny, some \$520 billion worth of deals were abandoned since the onset of the pandemic.¹⁵ There is also constant pressure on deals from activist funds, shareholders, and even consumers, creating further uncertainties.

Companies will need to demonstrate the long-term benefits of their deals to regulators and broader stakeholders, against a backdrop of protectionist instincts that are clouding M&A. Crucially, whenever a deal is thwarted, investors will expect a "Plan B" strategy to be instigated promptly. Deloitte analysis shows that within one year of a proposed transaction's withdrawal, around half of acquirers and targets remained active in the market and completed new deals.¹⁶

Figure 7: Mega deals (>\$5B) stalled or withdrawn due to political and regulatory interventions



Based on Deloitte's analysis of M&A data generated via the Refinitiv database and Mergermarket on January 18, 2023.

Pressure from activists

Shareholders approved \$8 trillion worth of deals in the past 24 months, and activist investors are already circling companies holding them to account for realizing the promised synergies. Activist campaign activities in 2022 saw a 36% year-over-year increase and were at the highest levels since 2018. A good majority of the campaigns were related to breakups and divestitures, and the most frequently targeted sectors were technology and industrials.¹⁷

Harnessing the tailwinds

Record cash reserves

Since the onset of the pandemic, companies have taken decisive measures to bolster their cash piles, now amounting to a record \$3.4 trillion.¹⁸ Collectively, this represents a very substantial arsenal. Deal-makers would be wise to heed the lessons of the 2008 financial crisis when a compulsive cash accumulation culture emerged in the aftermath, and it inhibited the evolution of potential future-shaping investments and deals. A Deloitte study, *The Cash Paradox*,¹⁹ found the markets were highly rewarding of companies that invest excess cash in the pursuit of growth, and such companies managed to grow their share price at an astonishing rate of 632%, compared to 327% growth rate of their cash-hoarding counterparts.

Private capital

In 2022, private equity (PE) firms accounted for 31% of the deals by value, and this level of PE involvement surpasses all other years except for 2021. These PE firms are sitting on an estimated \$2 trillion of "dry powder"²⁰ and we anticipate for them to remain active in the M&A markets. Increasingly, they are looking beyond financial reengineering to favor technology platform plays, digital transformation opportunities, and investments that are aligned with macro themes such as ESG. Meanwhile, we are also seeing private equity increasingly invest in the growth capital segment, competing with traditional venture capital funds, which invested a record-breaking \$612 billion²¹ in disruptive startups in 2021 and among which many were in emerging markets such as Africa.²² Look for private equity to be leading the way in taking advantage of the current market recalibration as it is keenly evaluating ongoing signals of opportunity and is typically more ready to pull the trigger than corporates.

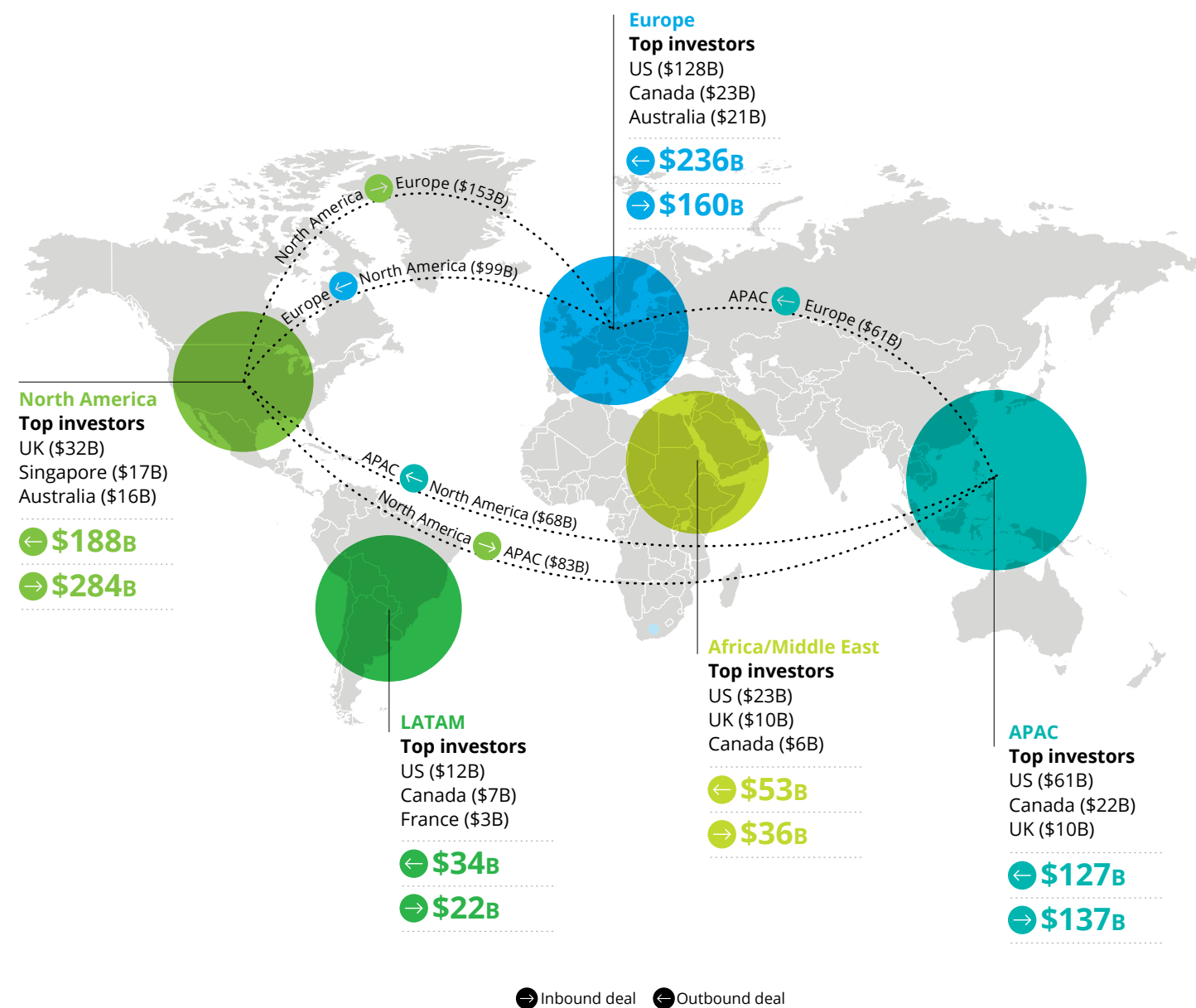
Cross-border trade lanes

In 2022, cross-border M&A remained strong at \$775 billion worth of deals. The North America–Europe M&A corridor saw \$254 billion worth of deals last year and should remain busy with eurozone companies trading at a discount to US counterparts on a forward price-to-earnings basis, offering opportunities from valuation divergences.²³

With most G7 countries challenged for growth, they will have to build new corridors in emerging areas such as Southeast Asia and Africa to enter new markets as well as build new supply chain

links. Meanwhile, in India, the M&A markets defied gravity to soar to record levels, and it presents an attractive market for inbound investments this year. We anticipate this trend to continue, as a recent Deloitte snap poll shows that 68% of US companies are considering international markets for new growth opportunities.²⁴ From Asia, Japanese companies are leading the outbound wave focusing on transformative cross-border deals aimed at reorienting their portfolio toward growth and sustainability assets in what they consider as emerging markets outside of their more mature and consolidated markets at home.

Figure 8: North America–Europe and Asia-Pacific–North America were the major deal corridors



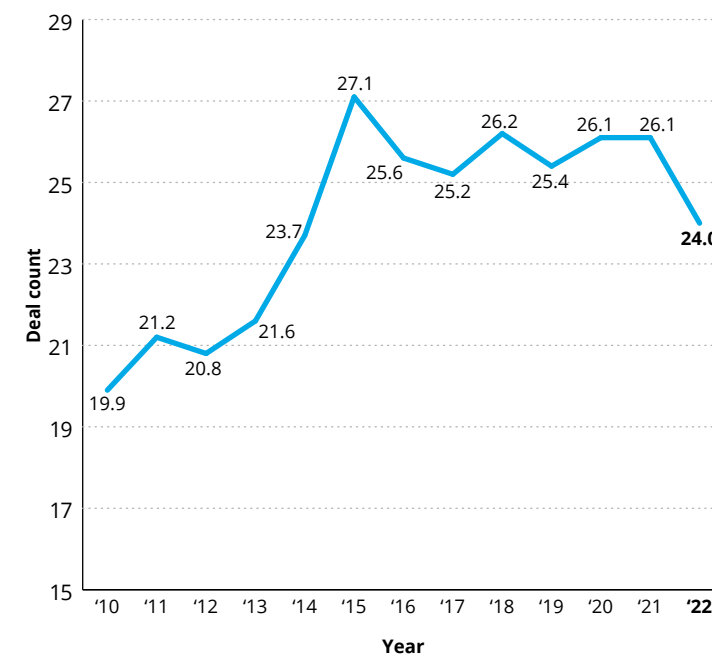
Falling valuations

In 2022, the average price-to-earnings deal multiple stood at 24, the lowest since 2014.²⁵ The pandemic conditions gave a boost to valuations in many sectors, such as home fitness and media streaming, which took advantage of overnight market shifts. But as the conditions and consumer habits ease back to pre-pandemic characteristics, recent financials may not be accurate predictors of future performance.

Companies with weaker debt ratings will find it difficult to secure financing and might become attractive candidates for takeover. Notwithstanding debt market complexities, the creativity and the capital available to PE funds will see some take advantage of falling valuations.

When evaluating opportunities, companies should undertake rigorous valuation that is underpinned by dynamic modeling, scenario planning, and detailed value extraction plans. This should help strike the balance between mature acquisitions targeting short-term returns and those based on the promise of exponential disruptive growth.

Figure 9: Global M&A price-to-earnings ratio deal multiples



Impact investment and ESG

Shareholders are increasingly holding companies accountable for performance on ESG parameters; in turn, impact investing is fast becoming a dedicated strategy. A recent Deloitte survey shows that 60% of CFOs believe their overall performance on ESG has an impact on their cost of capital.²⁶ It is also increasingly playing a role in capital allocation: Our recent global capital allocation survey shows 27% of the companies consider ESG issues in every capital allocation decision, while 46% said ESG would be considered in acquisitions.

Global fund managers representing a total of \$121 trillion of AUM have signed up to UN Principles for Responsible Investment (PRI),²⁷ and they are increasingly holding companies accountable for performance on ESG parameters. In addition, many limited partnership (LP) investors are also putting pressure on private equity and venture capital firms, and this has led to the launch of the ESG Data Convergence Initiative (EDCI) to advance standardized ESG reporting, driving more meaningful portfolio performance comparison and investment transparency.²⁸

Path to thrive: Rethinking M&A strategies

As we move toward a post-pandemic world, through previously uncharted paths, thriving in such an environment requires companies to reimagine the future of their markets, reexamine their core capabilities, and reevaluate their competitive advantages. In parallel, as part of long-term value creation, companies also need to consider the impacts of other macro themes such as digitization, technology shifts, climate change, health care and well-being, energy transition, skills shortage, and aging populations.

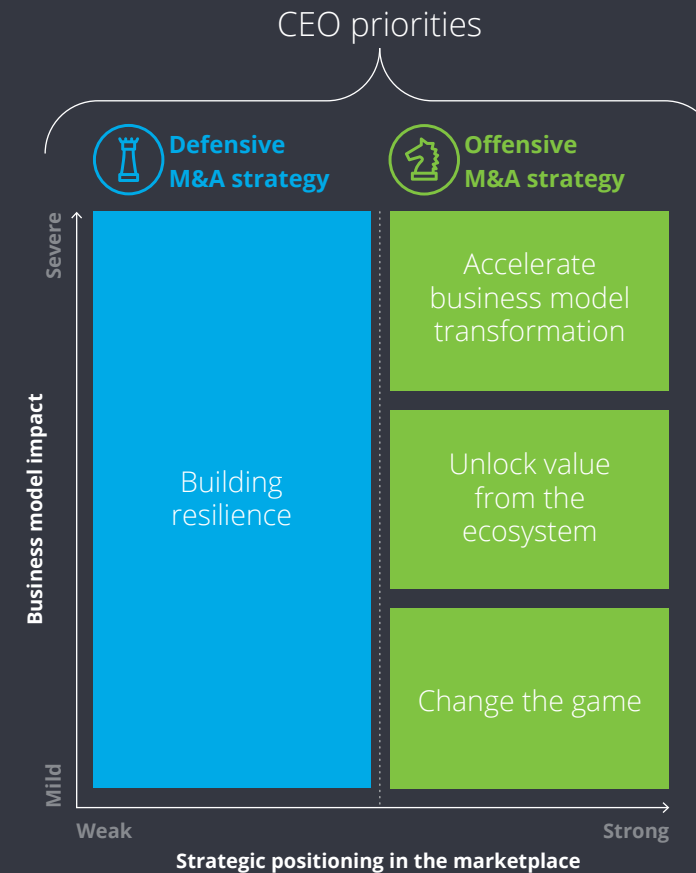
As such, capital allocation needs to be considered and evaluated through the lens of whether the current asset portfolio is fit for purpose to enable optimized returns going forward. This will help companies make fundamental choices on growth strategies,

prioritize the markets and segments where they need to play, identify gaps and the skills they need to win, determine which assets will be needed for the future, and determine how best to transform themselves in the process by making both organic and inorganic investments.

Building on our research from the original *Charting New Horizons* report,²⁹ we have evolved the M&A framework to demonstrate a new set of defensive and offensive deal archetypes that are required to build resilient business models, accelerate transformation, unlock the potential of ecosystem alliances, and capture market leadership. Redefining M&A strategies in terms of these choices will bring much-needed clarity of purpose while paving the path to thrive.

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Charting new horizons M&A framework



Building a resilient company

- Accelerate synergy realization from recent deals, evaluate your current portfolio, and divest assets that are not aligned to long-term growth.
- Optimize your portfolio and strengthen your core by acquiring competitors to consolidate the marketplace.
- Consider opportunistic deals to secure your supply chain systems, safeguard your customer channels, and enhance market positioning.

Charging the growth engine

- Transform your business model by acquiring value-enhancing products and capabilities. Identify portfolio gaps, and consider expanding toward market adjacencies through acquisitions in digital, ESG, and platform plays.
- Capture opportunities through purpose-led alliances and partnerships involving nontraditional peers and scale-ups from the ecosystem.
- Invest in disruptive innovation assets to scale at the "edge."

Business model impact: Consider the impact of post-pandemic structural changes on your employees, customers, suppliers, and operating model.

Strategic positioning in the marketplace: Consider your liquidity position, balance sheet strengths, ability to raise capital, competitive environment, threats of disruption, and drivers of competition in the marketplace.

Defensive M&A: Building resilience

One of the lessons from the pandemic is that all companies, large or small, will need to firmly establish resilience at the heart of their business model and organizational culture. Building resilience can help ensure an organization is agile and adaptable, able to ward off threats from the marketplace, and prepared to deal with complex and unpredictable events in the future. We anticipate these defensive plays will materialize in several different ways:

Cleaning the stables

Accelerate synergy realization and deliver value

In 2021 and 2022, shareholders approved more than \$8 trillion³⁰ worth of deals, and now the deal-makers involved can anticipate significant investor pressure to accelerate synergy realization and deliver value.

Investor reactions matter. In their new book, *The Synergy Solution: How Companies Win the Mergers and Acquisitions Game* (Harvard Business Review Press), Deloitte authors Jeff Weirens and Mark Sirower studied 1,267 deals over a 24-year period, collectively representing around \$5.37 trillion of equity value. They found that initial market reactions, positive or negative, are powerful predictors of how deals will eventually turn out. The authors identified clear evidence that acquirers who begin with a positive market reaction and deliver on their promises enjoy returns some 60 percentage points higher than acquirers who start by facing a negative reaction and go on to realize those negative forecasts.³¹

Building resilience can help ensure an organization is agile and adaptable, able to ward off threats from the marketplace, and prepared to deal with complex and unpredictable events in the future.

Most integration programs follow a consistent pattern of three phases: integrate to close, establish an interim operating state while investing for the future, and deliver the realization of the business case. The fundamental problem is most programs never go beyond an interim state due to changes in market conditions, insufficient management attention, and a business-as-usual mentality taking over. The longer post-close execution takes, the less likely management will be able to deliver the promised returns. Sophisticated acquirers transform as they transact, to accelerate the time-to-value of business case realization. Leveraging tools, such as predictive analytics, robotic process automation, and digital platforms, can help capture both cost and revenue synergies, ensuring a merger is far more than the sum of its parts.³²

Additionally, based on Deloitte's work on thousands of deals, we estimate that tax synergies regularly represent more than 20% of available deal gains. Significant benefits can be found in tax alignment in the value chain—including among suppliers—and through improved operating footprints and integration strategies. Strategies such as capturing local tax credits and shifting some software to the cloud can contribute to the self-funding of digital transformations. Companies should be equally mindful of potential tax risks, with careful consideration given to the location of intellectual property rights and profit generation, as well as local presence stipulations.



Defensive M&A

Optimize the portfolio

Many companies are facing pressure from activist hedge funds for portfolio restructuring, from regulators pressing for asset carve-outs as a condition for merger approval, and from their own boards, which are keen to ensure companies remain on track with sustainability and net-zero commitments.

The 2022 Deloitte Global Divestiture survey found that seven in 10 companies are considering making two or more divestments in the next two years, as they continue to focus on building resilience. The survey also shows that four in 10 businesses are already selling carved-out assets at higher-than-expected prices, in part due to increased demand from private equity buyers.³³

Becoming a prepared seller is more important than ever. The one-time cost of preparing to shed a business is rising, and two-thirds of the survey respondents say the cost of the atypical divestiture is 4% to 7% of the revenue of that asset, in sharp contrast to the less than 3% figure from our equivalent 2020 report.³⁴

In addition, many companies are also reexamining their existing business through an ESG lens and identifying problematic assets to divest. Potential buyers are increasingly sensitive to risks around workplace inclusion and diversity, the supply chain, brand perception, and the impact of climate change. Given these shifts, ESG-related diligence and compliance are becoming key components of deal execution and post-deal transformation.³⁵ Recently, when a large PE firm acquired the beverage division of a major consumer business company, it undertook additional diligence specific to ESG considerations and made it central to the investment process.³⁶

Strengthening the fortress

Explore opportunistic deals to safeguard supply chains and competitive positioning

Global supply chain disruptions are affecting every sector, either directly or indirectly. In addition, changing stakeholder expectations toward ESG are putting pressure on businesses to fundamentally redesign their supply chain systems to improve transparency and reduce their carbon footprint.

M&A activities can play a key role in shaping the response. Companies could explore opportunistic deals to safeguard existing supply chains and consider innovative options such as backward or forward integration with suppliers. For instance, a major global retailer is considering starting a captive shipping company and acquiring its own containers to maintain seamless flow of goods.³⁷

Companies could also consider strategic acquisitions of suppliers to maintain competitive positioning in the market. In response to the global semiconductor chips shortage crisis, a major chipmaker recently acquired a specialist chip contract manufacturer to boost its production capacity and safeguard its customer base.³⁸

Businesses may look at consolidation to firm up competitive positioning. Among those already doing so is a major Canadian bank that acquired a competitor in the United States as it provided entry into growth markets, complementary capabilities to drive efficiencies, and the ability to capture powerful economies of scale.³⁹

It is also important to consider co-investment and partnership opportunities with suppliers or even private equity firms, to pool capital and expertise toward investing in value-enhancing opportunities. For instance, a major global logistics company recently sold a minority stake in one of its subsidiaries to a PE firm to tap into the fund's significant investment strength and expertise, jointly implementing a transformational value plan with new freight-forwarding trade routes, additional growth verticals, and fresh M&A activities.⁴⁰

Offensive M&A: Charging the growth engine

As the first US President George Washington observed, “The best defense is a good offense.” Bold moves involving transformative acquisitions, ecosystem alliances, and disruptive investments will be required to charge the growth engine and lay the groundwork to capture market leadership. Companies clearly need to play offense to gain momentum, and we anticipate those efforts to materialize in several different ways:

Accelerating business model transformation

Capture the digital future

The pandemic conditions ruthlessly exposed companies that lagged in digital investment, omnichannel capabilities, and agile operating models, and at the same time, they enabled new market opportunities for companies that were digitally prepared.

In a recent CEO survey by *Fortune* magazine and Deloitte, nearly two out of three executives indicated digital was their number one transformation priority.⁴¹ Such change is an enterprisewide long-term commitment that cuts across business departments and technologies. Some companies will actively seek alliances and partnerships for these efforts, while others will acquire technologies and capabilities to accelerate their transition. In response to the significant growth in online shopping, a major heritage shipping company made multiple e-commerce logistics acquisitions in a relatively short space of time to rapidly scale its digital and integrated logistics capabilities.⁴²

Impact investing is fast becoming a dedicated M&A strategy, and in 2021, around \$188 billion was spent by corporations on acquiring relevant assets, the highest figure on record.

Identify portfolio gaps and expand the value chain

Corporations need to regularly reevaluate their sources of competitive advantage, identify portfolio gaps, and consider opportunities for expansion. In a recent Deloitte survey of CFOs, opportunistic deals to fill gaps in product and service portfolios were rated the top M&A priority.⁴³ Establishing a pipeline of deals can expand a company's value chain and make it easier to capitalize on adjacent market spaces. Companies may also explore platform business models to expand and unlock the value of their customers and networks. For instance, a major technology business that specializes in financial software has acquired a marketing platform to significantly expand its service offerings and continue its transformation to become the leading AI-driven expert platform for small businesses.⁴⁴

ESG—delivering returns with purpose

Businesses are increasingly expected to demonstrate they can deliver returns with purpose and create value not only for their shareholders but also for their stakeholders, including employees, customers, suppliers, and societies where they operate. In turn, many companies are aligning their investment strategies with UN Sustainability Goals, a universally accepted framework for measuring progress against ESG goals. Impact investing is fast becoming a dedicated M&A strategy, and in 2021, around \$188 billion was spent by corporations on acquiring relevant assets, the highest figure on record.⁴⁵

Offensive M&A



Investing in ESG pathways requires companies to adopt a multidimensional M&A strategy. These could involve *product plays* by investing in businesses whose core product and services drive ESG improvement, such as those in waste management; *infrastructure plays* by investing in companies that provide the underlying infrastructure for sustainable solutions, such as those in vertical farming; and *technology plays* by investing in businesses that are using disruptive technologies to displace the market by creating new product categories, such as those using cell-based biotechnology to cultivate meat in laboratories.

Unlocking value from the ecosystem

Collaboration as a competitive advantage

One of the enduring legacies of the pandemic is how corporates embraced collaboration, forming the bedrock of global recovery. The post-pandemic transition will continue to bring significant challenges such as supply chain disruptions, skills shortage, climate change complexities, cross-sector convergence, and many others that cannot be solved unilaterally.

These dynamics have necessitated the need to expand the scope of traditional M&A strategies to include collaborative structures such as ecosystem alliances, partnerships, and other similar constructs that are not bound by traditional industry boundaries, but instead coalesce around common purpose and create shared value for the businesses, their clients, and their communities. It seems that every opportunity now needs to be considered through the lens of whether to build, buy, or collaborate.

Companies should actively reach out to a multiplicity of partners to build such purpose-led alliances and partnerships.⁴⁶ This could include allying with a diverse range of collaborators including suppliers, PE firms, innovative startups, cross-sector specialist peers, or even traditional competitors. Among those already doing so, in the aviation sector, a progressive alliance of an aircraft manufacturer, industrial gas supplier, and airport operator has been formed to promote the use of hydrogen infrastructure and accelerate decarbonization of the aviation industry.⁴⁷

Changing the game

Capitalize on cross-sector convergence

The rapid adoption of exponential technologies, digitization of businesses, and shifts in consumer attitudes are blurring traditional sector boundaries, leading to convergence of business models across disparate sectors. It is resulting in the further evolution of ecosystems and creating opportunities for innovators and nontraditional players to disrupt established companies by redefining the basis of competition.

This has unleashed a new paradigm of disruptive M&A, where in recent years companies have spent more than \$1 trillion investing in such disruptive assets.⁴⁸ Remarkably, the non-technology sector has overtaken the traditional tech sector's investment into such assets. Such deals are inherently linked to long-term transformation, and we expect it to remain as one of the defining features of the M&A marketplace. For instance, as part of its ongoing transformation, a conventional retail giant recently invested in a point-of-sale financing platform to jointly develop and extend innovative consumer financing solutions to its customers.⁴⁹

Scaling at the edge

Corporate venturing is a springboard to test new technologies, market offerings, and talent that can shape the future of sectors. As ecosystems mature, it is important that companies develop corporate venturing strategies and aligned capabilities such as horizon scanning and ecosystem engagement as an integrated approach to innovation-led business transformation. Such capabilities can give companies the confidence to build a portfolio of investments at the edge of their existing markets and establish strategic positions in transformational growth segments. For instance, a major consumer business company was using its venture arm to closely monitor scientific trends and technologies around conventional meat alternatives, and this informed its investment in a cultivated-meat startup.⁵⁰

M&A and the path to thrive

Sectors will evolve at different trajectories and paces. At the same time, technology-enabled convergence is blurring traditional sector boundaries and creating new market opportunities and customer segments. Companies need to reframe their growth options to include not only financial considerations but also operating model agility, competitive positioning, capital return horizon, and brand permission to enter new markets.

M&A strategies are now firmly cemented as a fundamental part of the corporate arsenal, both in defense to preserve value and in offense to drive transformative growth. This framework can help companies articulate a new combination of M&A strategies to fortify their gains, accelerate business model transformation, and make horizon investments to capture lasting market leadership.

Defensive M&A strategy

Offensive M&A strategy

02 Cleaning the stables

Do you have a noncore asset divestment program in place? Do you plan for rapid asset transformation to enhance the sale value?

01 Accelerate synergies

Are you well positioned to accelerate both cost and revenue synergies and demonstrate the wider stakeholder benefits?

03 Strengthen the fortress

How can you use M&A as a strategic response to shape responses to optimize the operating model and supply chain resilience and enhance your customer-centricity?



04 Safeguard competitive positioning

Are you actively monitoring the markets and prepared to move fast on opportunistic deals to consolidate segments?

05 Portfolio transformation

Are you undertaking a portfolio review and considering the implications of the "new normal" factors such as technology transformation and ESG on your current and future portfolio?

06 Digital acceleration and portfolio expansion

Are you considering M&A deals to accelerate digital transformation and develop platform and "as-a-service" plays to capture new revenues by expanding your portfolio into value chain adjacencies?

07 ESG and impact investing

Businesses are expected to demonstrate they can deliver returns with a purpose. Do you have a multidimensional view of ESG investment aligned with product, infrastructure, and technology plays?

08 Alliances

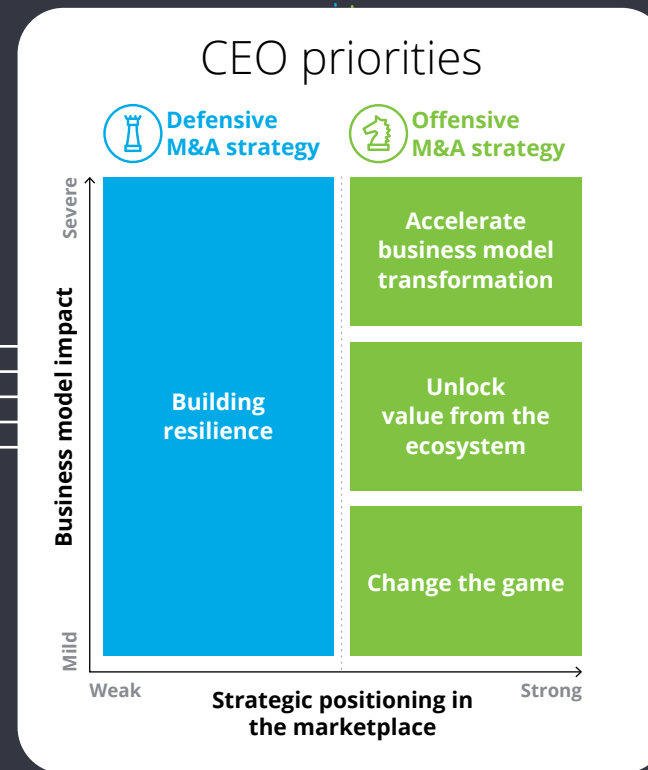
Are you exploring value creation opportunities through purpose-led alliances with a diverse range of collaborators, including nontraditional peers and innovative startups?

10 Scaling at the edge

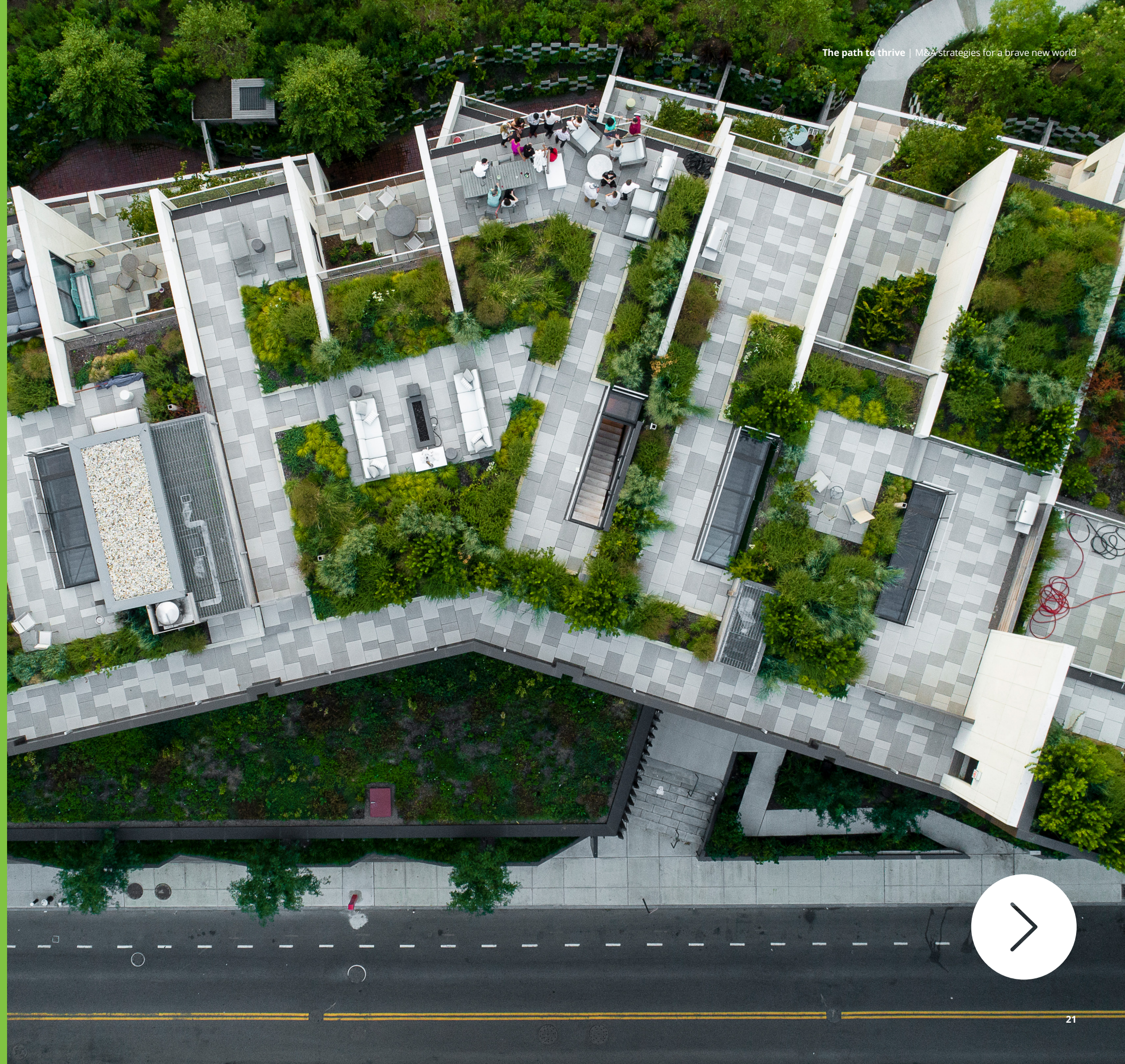
Do you have horizon scanning capabilities? Are you looking to build a portfolio of disruptive investments at the edge of your business to establish strategic positions in transformational growth segments?

09 Convergence

Are you actively looking to capture cross-sector convergence opportunities to create new products, customers, and market segments and position for market leadership?



Sector M&A pathways



Energy, Resources & Industrials

Observations

After a record year in 2021, Energy, Resources & Industrials (ER&I) in 2022 stabilized with a 29% YoY decline in deal value to \$816B and 11% YoY decline in volume to 12,547 transactions.

North America with \$308B worth of deals was the most active region with respect to deal value, while Europe with 4,254 deals led in terms of deal volume in 2022.

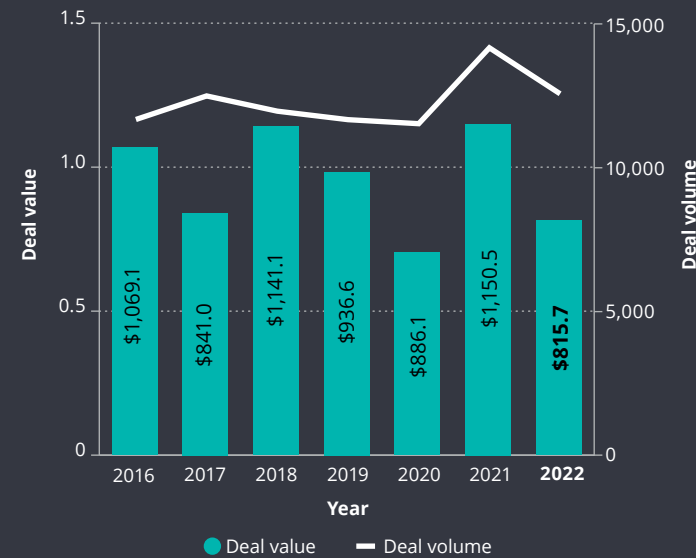
The oil and gas industry earned record profits in 2022, providing ample cash flow to fund its strategies in 2023. Energy transition is the primary driver of M&A activity as oil and gas companies look at shifting their portfolios toward clean energy.

ESG growth areas such as carbon capture, hydrogen, renewables, and other clean technologies are expected to be key focus areas.

The sharp rise in global energy prices fueled by the Russia-Ukraine conflict may drive consolidation within the Oil, Gas & Chemicals subsector.

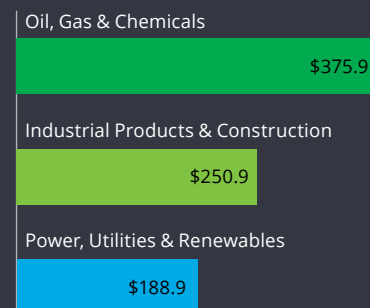
Industrial Products & Construction M&A activities are anticipated to pick up as companies invest in new capabilities such as digital, smart factories, and supply chain.

Energy, Resources & Industrials deal value and volume (in trillions of US dollars)

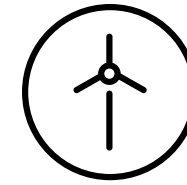
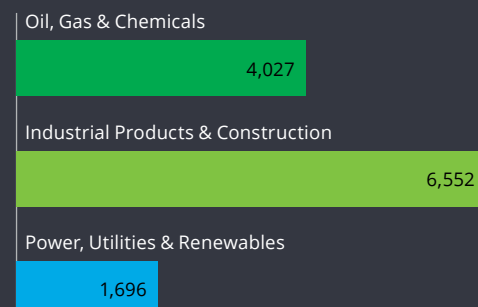


Source: Based on Deloitte's analysis of M&A data generated via the Refinitiv database on January 18, 2023.

Deal value by sector (in billions of US dollars)



Deal volume by sector



Energy & Resources

Forces shaping "new normal" conditions

Increased demand and constrained supply are driving changes

- A combination of supply constraints and geopolitical tension has resulted in energy price increases and is putting pressure on operating models that had become lean in recent years offset with low prices.

Decarbonization across industries is enabling new energy era

- Decarbonization mandates are gaining pace in all industries and present the opportunity for E&R companies to deliver scale projects and contribute to a low-carbon future.

Green jobs will require new skills in the workforce

- Decarbonization commitments, flexible workforces, and requirements to reskill for digital and renewable capabilities will require companies to design new talent models.

Active portfolio monitoring

- Companies will need to monitor their portfolios to avoid carrying stranded assets as well as avoid unnecessary divestment of assets that may prove profitable in other supply/demand environments.

Importance of customer-centricity will increase

- To thrive throughout the energy transition, fuel companies will need to offer a full suite of products and services.
- Companies will look to draw closer to end customers and incorporate convenience as key to the customer experience.

Short-term responses

1 Portfolio restructuring to drive energy transition

Companies are fundamentally rethinking their portfolio, seeking to divest higher carbon-intense assets, pursuing acreage consolidation, and acquiring assets aligned to energy transition.

2 Investments to build future capabilities

Companies could use of the current high energy prices to make significant investments and acquisitions related to digitization and integrated value chain driving new revenue streams.

CEO priorities



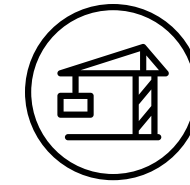
Medium-term responses

3 Energy transition alliances

The energy transition is attracting investments from nontraditional competitors in other sectors, as well as private capital. Companies should consider cross-sector alliances with companies in automotive, technology, and other sectors to gain direct access to customers and explore new revenue models.

4 Sustainability-aligned growth segments

Companies should actively seek opportunities in adjacent markets such as chemicals, advanced plastics recycling and others where they can leverage existing expertise such as research and development and customer networks.



Industrials

Forces shaping “new normal” conditions

Technology is driving industrial connectivity

- Advancements in the Industrial Internet of Things (IIoT) and digital twin technology are driving significant innovation in solutions and business models.

Supply chain disruption is affecting production times

- Long lead times for critical components are creating uncertainty in production planning and forecasting.
- Delays in manufacturing and port congestion will drive companies to identify resilient solutions for supply networks.

Rising raw material costs are affecting margins

- Shortage of supply along with increases in raw material costs and shipping rates have created pricing pressures.
- Unless contained, these cost rises threaten to outstrip the productivity gains and could significantly affect profit margins.

Digital solutions will lead to workforce evolution

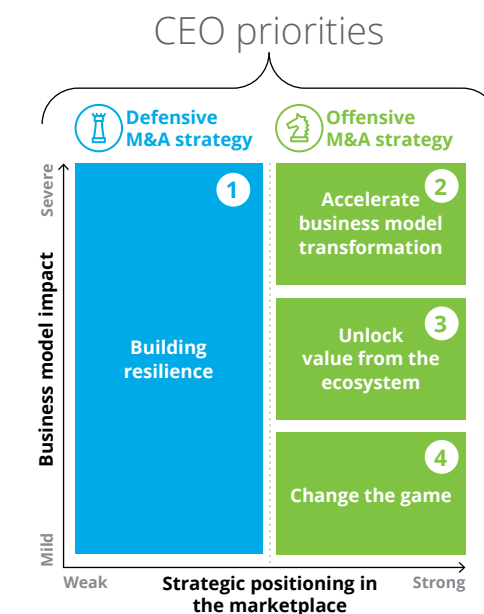
- Digital-first solutions will affect the skill sets required from the workforce.
- Industrial companies will compete with tech firms for talent, while simultaneously upskilling their current workforce.

ESG pressures will continue to grow

- Stakeholders will increasingly call for ESG commitments.
- Creating the factory of the future through smart technology and green energy will remain in focus.

Short-term responses

- 1 Strengthening of value chain**
Acquisitions and investments related to vertical integration could help companies secure long-term suppliers and mitigate supply chain disruptions.
- 2 Shifts in core competencies**
The inevitable shift toward sustainable processes and products is likely to affect the core competencies of many companies, and they should drive this change through targeted acquisitions.



Medium-term responses

- 3 Technology alliances**
Industrial companies should consider alliances with the technology sector to boost innovation and leverage specialist digital skills expertise.
- 4 Investing in disruptive technologies**
Industrial companies should consider growth acquisitions in focused areas such as IIoT, robotics, automation, digital twin, and AI to drive long-term transformation.

Consumer & Automotive

Observations

After a record year in 2021, the Consumer sector saw YoY decline of 35% in M&A value to \$614B in 2022.

In terms of M&A volume, Europe was the most active region with 5,724 deals, followed by Asia-Pacific (4,201 deals) and North America (3,697 deals). Europe was the most targeted region with \$209B worth of deals in 2022.

Transportation, Hospitality & Services was the most active subsector with \$294B worth of deals, while Automotive saw the highest YoY decline of 61% to \$70B in 2022.

Some of the likely drivers for M&A activity in 2022 include:

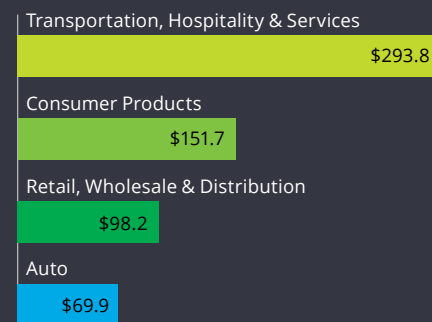
- Building resilience against inflation and supply chain disruptions
- Evolving preferences in retail and consumer goods (e.g., omnichannel, delivery logistics, sustainable products, emerging tech, hot markets, such as health and wellness)
- In the automotive sector, the generational shift to electric vehicle (EV) and associated supply chains and building resilient business models by divesting noncore assets such as dealer networks
- Trends toward nearshoring and digitization in the Logistics and Transportation sectors

Consumer & Automotive deal value and volume (in billions of US dollars)

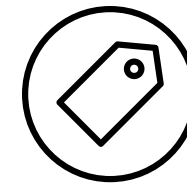
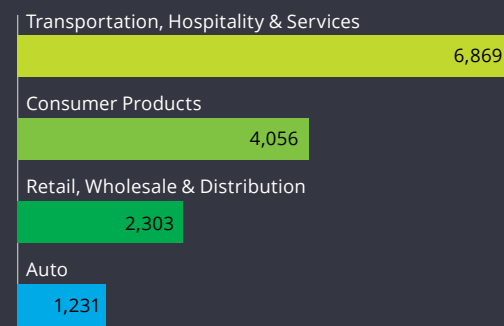


Source: Based on Deloitte's analysis of M&A data generated via the Refinitiv database on January 18, 2023.

Deal value by sector (in billions of US dollars)



Deal volume by sector



Consumer

Forces shaping "new normal" conditions

Pressure on margins

- Surges in inflation, customer demand, supply chain disruptions, and higher labor costs are leading to rapid increases in production costs and pressure on margins.

Slower recovery in some subsectors

- Post-pandemic uncertainty continues to affect the leisure, travel, and hospitality sectors.
- Revenue losses in these sectors, originally from the pandemic but now from inflation, could contribute to an increase in sales of distressed assets and restructuring.

Short-term responses

1 Supply chain resilience

Companies could consider investing in contingency supply chains, this includes considering partnerships with new suppliers, as well as with private equity to bolster supply chain systems.

2 Technology-led transformation

Digital transformation is fundamental to success. In addition to omnichannel capabilities, companies should consider investments in predictive demand analytics, fulfillment, and dynamic pricing.

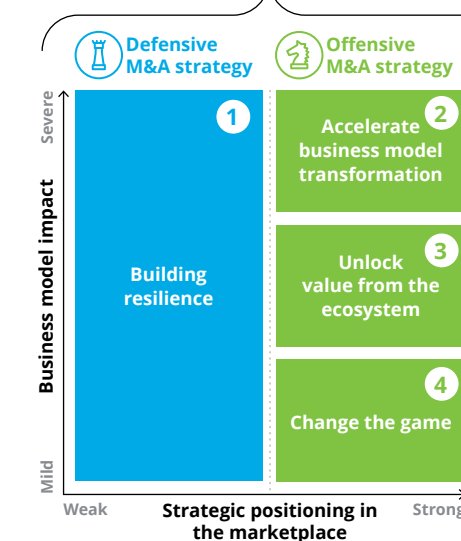
Direct-to-consumer (D2C) purchases will increase

- D2C models will enable companies to increase customer-centricity through personalization, loyalty programs, and increased customer service levels.
- More companies will look to be active in the D2C space and acquire platforms to increase scale of distribution.

Sustainability and wellness influences purchasing behavior

- Consumers are increasingly willing to pay a premium for socially conscious products, ethical supply chains, and wellness-focused offerings.
- This trend is creating opportunities for new revenue streams.

CEO priorities



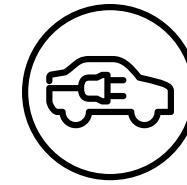
Medium-term responses

3 Pursue alliances

Companies could consider alliances with their peers to alleviate supply-side pressure, as well as cross-sector arrangements with sectors like technology to enhance customer experience.

4 Growth investments

Companies could consider an ESG-aligned investment strategy to target assets such as sustainable product design and packaging, as well as in emerging growth segments such as personalized nutrition and carbon-neutral travel.



Automotive

Forces shaping “new normal” conditions

Connectivity is becoming standard

- The majority of cars are expected to have smart connectivity by 2035, driven by consumer demand and regulation.
- Data generated by 5G connectivity will be valuable and utilized by original equipment manufacturers (OEMs), dealers, fleet owners, and consumers.

Electric vehicle and fuel-cell ecosystems

- The EV market and associated ecosystem are expected to grow in double digits driven by customer preferences, favorable regulation, private capital investment, and the strategic push by OEMs.
- Hydrogen fuel-cell powered vehicles are starting to make up a more meaningful portion of the market.

Shared mobility and mobility-as-a-service continue to grow

- Shared mobility market continues to grow, driven by need for convenience, lower costs, and environmental concerns.
- Customers are using mobility platforms in an increasing variety of ways, including for grocery delivery, courier, and others.

Investment for autonomous vehicles (AVs) remains steady

- Both OEMs and tech companies are investing heavily in autonomous vehicle technologies. However, mass adoption remains distant owing to safety concerns.
- Stakeholders need to work closely with governments to shape future regulations that strike the balance between innovation and safety.

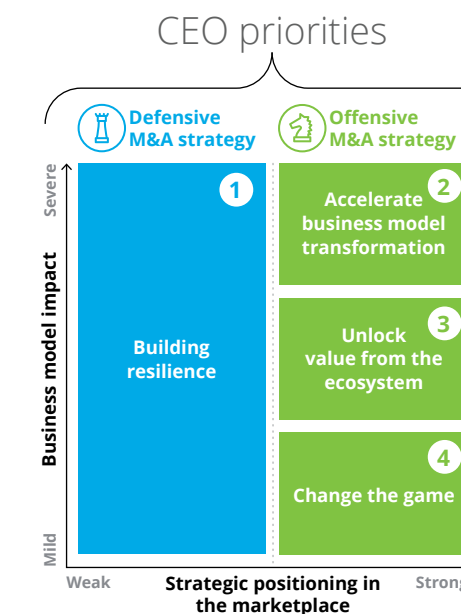
Short-term responses

1 Safeguard supply chain

Supply chain disruptions may prompt OEMs to vertically integrate critical aspects such as chips and divest auxiliary services such as auto financing, retail insurance, etc. to facilitate these critical investments.

2 Agile business models

Companies should consider investments across the entire value chain to make the business more agile; these include opportunities for digitization, flexible manufacturing, and smart factories.



Medium-term responses

3 Software-centric partnerships for CASE development

Access to a comprehensive software suite is critical to success for driving Connected, Autonomous, Shared, and Electric (CASE) products. OEMs should explore alliances and partnerships to drive this forward.

4 Future portfolio realignment

Companies need to continue building a future portfolio that aligns major shifts in consumer trends. This could include value chain opportunities such as smart infrastructure, recycling, and sustainable materials.

Life Sciences & Health Care

Observations

After a high in 2021, Life Sciences & Health Care (LSHC) recorded a 44% YoY decline in deal value to \$301B in 2022. The drop in value was primarily driven by the 51% YoY decline in the large deals segment (\geq \$1B to \$10B) to a total \$109B in 2022.

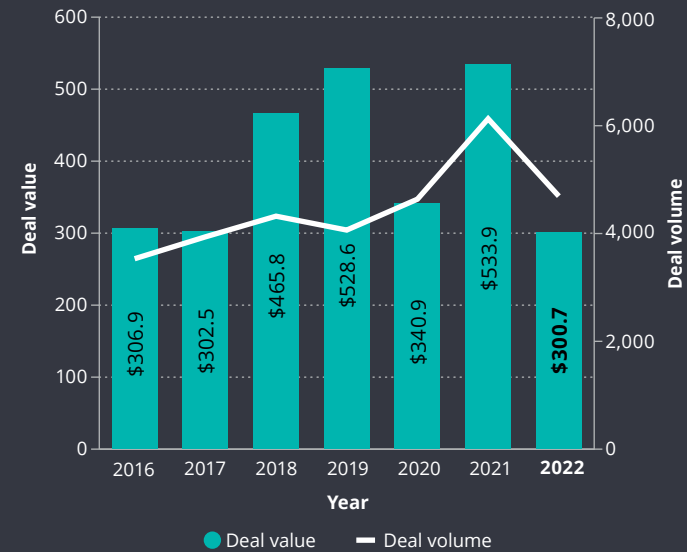
North America was the most active region, and deals worth \$203B were announced in 2022. Europe came a distant second with \$47B worth of deals.

Among the subsectors, Life Sciences saw the highest YoY decline in M&A value and volume. Deal values plunged by 44% to \$229B, and deal volume declined by 30% to 2,781 transactions.

The M&A outlook for the LSHC sector in 2023 is expected to be better than 2022; companies are cash rich and resetting valuations in segments like biotechnology. The adoption of artificial intelligence (AI), machine learning (ML), and newly converged health tech business models are likely to draw fresh M&A investments.

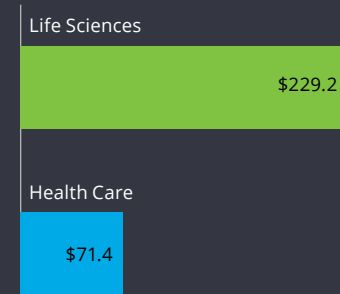
Inflation is continuing to affect the affordability of medical services for consumers. This presents opportunities for the sector to invest in new technologies and supply chains to make its products more accessible and affordable to drive more volume. This could also help companies build trust with their consumers.

Life Sciences & Health Care deal value and volume (in billions of US dollars)

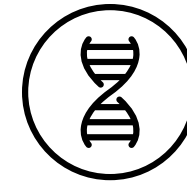
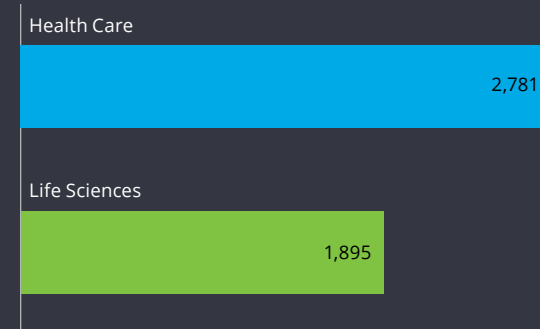


Source: Based on Deloitte's analysis of M&A data generated via the Refinitiv database on January 18, 2023.

Deal value by sector (in billions of US dollars)



Deal volume by sector



Life Sciences & Health Care

Forces shaping "new normal" conditions

Digitization of health care

- The potential for new variants, speed of vaccination, and changing government approaches all contribute to pandemic uncertainties.
- Consumers got used to alternative service delivery methods during the pandemic, and there could be an increased demand for virtual care and automated medication management.

Industry economics may shift

- A focus on value-based and outcome-based care may change the way companies generate revenue.
- New business models would focus on early-detection and preventive care.

Short-term responses

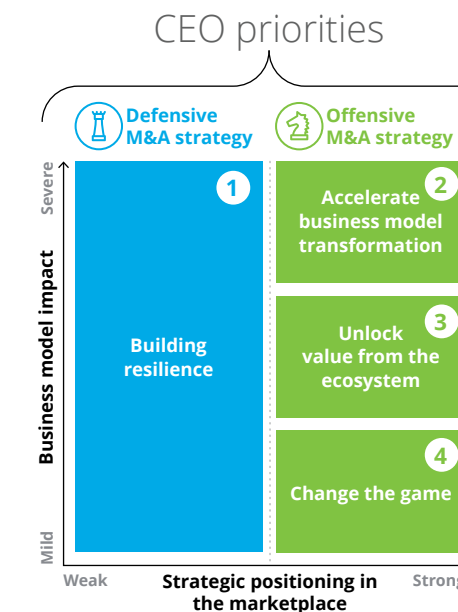
- Mitigating uncertainties**
Companies need to potentially divest non-core assets and invest in capabilities such as supply chain, alternative service delivery, and next-gen therapeutics.
- Technology-led business model transformation**
Investments in digitalization and remote service capabilities will reduce delivery costs, increase patient access, and augment inpatient services. LSHC companies are likely to invest in R&D enabling technologies such as AI-driven drug discovery.

AI will fundamentally affect business models

- AI and big data create the opportunity to further tailor care to specific patients and treat diseases earlier in their life cycle.
- The rise of virtual and lower-cost sites of care means that some providers may be stranded with more physical assets than needed.

Mental health will continue to be a priority

- Demand for mental health treatments is growing due to reduced stigma, pandemic effects, and other behaviors.
- Models of care that incorporate mental health into existing treatment centers will increase.



Medium-term responses

- Integrating patient-care value chain**
Integrating with insurers, providers, and retailers would improve patient care and provide cost efficiencies; data sharing and trust will prove to be critical in delivering value from such ecosystem partnerships.
- Technology-enabled preventive care**
The convergence between technology and health is enabling new business opportunities in areas such as health monitoring, preventive and predictive care. LSHC companies should have an active investment strategy for such emergent spaces.

Financial Services

Observations

After the highs of 2021, the financial services sector registered a 43% YoY drop to \$673B worth of deals in 2022, the lowest value seen in the past five years. Deal volumes also saw a YoY decline of 15% to 8,589 transactions in 2022.

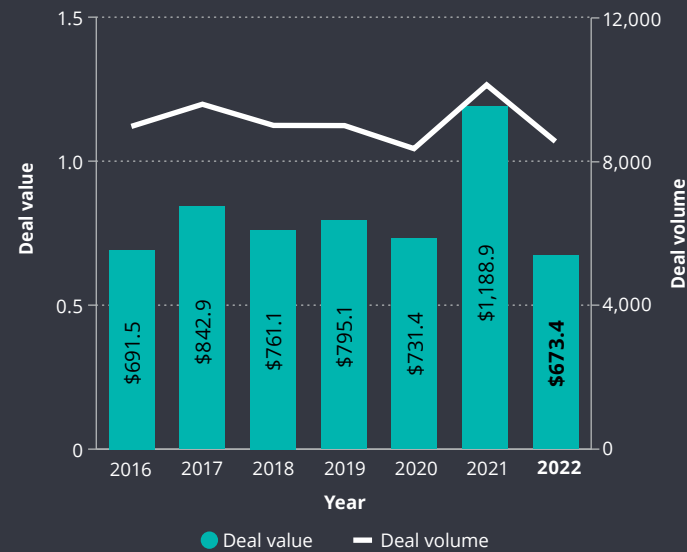
Europe was the most active region in terms of deal volume with 2,973 transactions, followed by North America (2,579 deals) in 2022.

Inflation hampers nonlife profitability even while boosting prices and top-line growth. The insurance sector should be looking to use M&A to broaden its historical focus from risk and cost reduction to prioritize ongoing innovation, competitive differentiation, and profitable growth.

In the short term, the banking sector is likely to reap benefits from interest rate hikes and higher savings; over the long term, the sector will need to pursue new sources of value beyond product, industry, or business model boundaries. This is likely to drive divestment of noncore assets and investments in new applications for ESG, embedded finance, and digital/fintech assets.

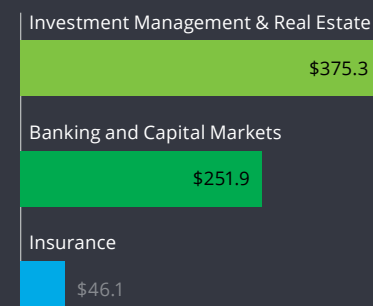
Investment management firms are likely to continue investments and acquisitions in digital transformation with new technologies that improve the client experience, gain operational efficiencies, and potentially generate alpha returns.

Financial Services deal value and volume
(in trillions of US dollars)

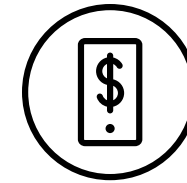
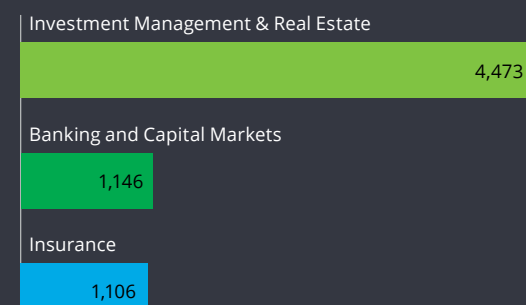


Source: Based on Deloitte's analysis of M&A data generated via the Refinitiv database on January 18, 2023.

Deal value by sector
(in billions of US dollars)



Deal volume by sector



Banking & Securities

Forces shaping "new normal" conditions

Skewed balance sheets are resulting in declining ROE

- Banks have divested noncore assets from their portfolios, resulting in a skewed balance sheet with legacy products.
- Growth will be required to deliver more stable return on equity (ROE)s.

Regulation will continue to influence the market

- Regulators are expected to respond to rapid developments in the sector with the introduction of new rules, especially in the areas of digital assets, climate, and financial inclusion.
- Regulatory convergence is increasingly desired by central bankers and could have a major impact on competition and market strategies.

Short-term responses

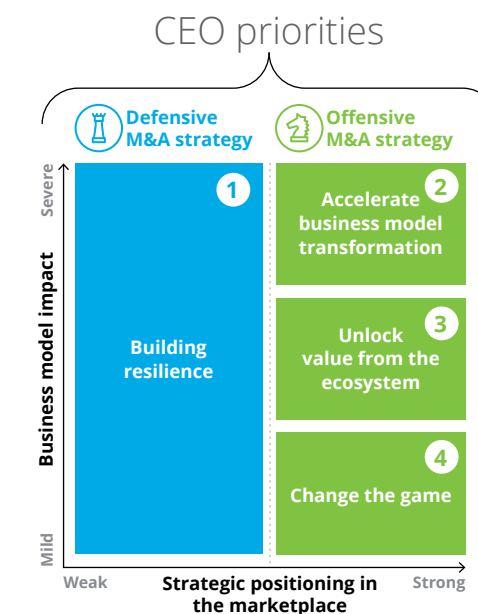
- 1 Divestment of noncore assets**
Companies could consider divesting underperforming loan portfolios and noncore divisions to raise capital and improve efficiency.
- 2 Technology-led business transformation**
Investments and acquisitions of new technologies (e.g., digital payments, e-trading platforms) will be critical to position banks to compete in the future.

Stakeholders demand ESG commitments

- Increased scrutiny from clients, regulators, investors, and employees on companies' ESG commitments will affect business models for financial institutions.

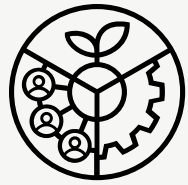
Digital assets, blockchain technology, and cybersecurity are increasing in importance

- The introduction of new, disruptive products and technologies has led to banks investing heavily in new technologies and creating alliances with partners that have broader digital capabilities.
- Banks are shifting toward integrated platforms and cloud solutions to improve cybersecurity and enhance analytical capabilities.



Medium-term responses

- 3 Cross-selling opportunities**
Banks need to establish alliances outside of their core sector with players from technology, retail, health, and others to cross-sell new services to a wider customer base, introduce new capabilities, and improve utilization of their current assets.
- 4 Growth investments**
Banks also need to consider acquiring high-growth, innovative businesses in areas like cybersecurity, fintech platforms, blockchain, AI, and others in adjacencies that could, in time, become the new core.



Investment Management

Forces shaping “new normal” conditions

Shifts in customer demand are driving new business models

- Customers are increasingly demanding specialized and value-add services.
- Firms are using digital channels and process automation to enhance client interactions.

ESG will affect asset allocation

- The focus on ESG will affect investment allocation decisions, investment transparency, regulatory reporting, and product marketing decisions. It will also likely drive product innovation in this segment.

Regulators are focusing on customer protection

- Regulators are likely to focus on increased client protections in areas such as data privacy, fee transparency, product unbundling, and ESG offerings.
- Lack of alignment could result in regulation asymmetry across jurisdictions.

Performance pressures are affecting allocations

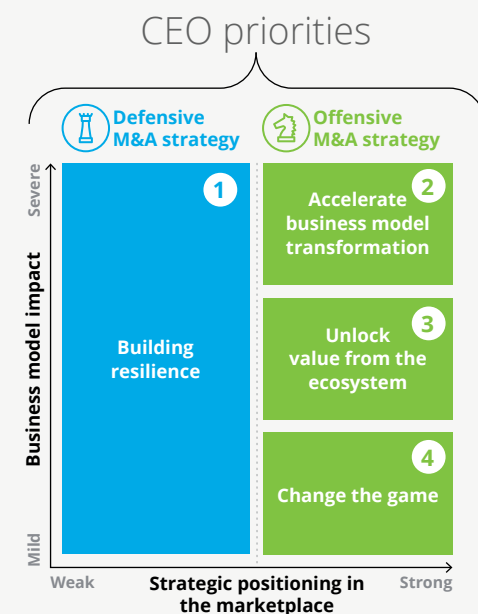
- The alternatives market has gained wide acceptance as it offers portfolio diversity and higher returns. This is placing further pressure on allocations and integration with traditional asset classes.

Demand for digital assets will require new capabilities

- Increasing interest in digital assets (e.g., crypto, non-fungible tokens [NFTs]) requires firms to develop or acquire new technologies and product offerings.
- These new offerings will also increase the importance of cybersecurity capabilities.

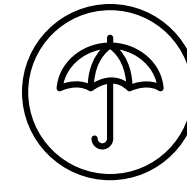
Short-term responses

- 1 Consolidation**
Sector is ripe for further consolidation, and in recent months, major players have been rapidly consolidating in response to falling fees and lack of growth.
- 2 Bolt-on capabilities**
Investment management firms are pursuing M&A to acquire new capabilities such as ESG investment specialization and technologies such as automated portfolio platforms (robo-advisors).



Medium-term responses

- 3 Nontraditional alliances**
Firms need to consider alliances outside of their core activities to expand their current client base, skills, and product offerings.
- 4 Future portfolio**
Firms also need to consider acquisitions of high-growth, innovative businesses in adjacent growth areas such as crypto funds, NFTs, crypto asset management platforms, and others.



Insurance

Forces shaping “new normal” conditions

Reduction in property and casualty (P&C) business volumes will drive innovation

- Reduction in traditional volumes and pricing pressures are forcing P&C insurers to focus on innovative offerings such as usage-based insurance and sensor-enabled analytics.

ESG is more than a ‘brand’ play

- For insurance companies, ESG principles will underpin the new emotional contract.
- Insurance companies are uniquely placed to influence ESG mandates on global businesses given their role in underwriting industrial activities for other companies.

Short-term responses

- 1 Portfolio rebalancing**
Market uncertainties resulting from geopolitical conflict and the need for capital optimization may prompt insurers to divest noncore assets and exit underperforming markets.
- 2 Market consolidation**
Costs of legacy business models and operating pressures are likely to drive consolidation in the market in order to capture economies of scale and accelerate transformation by investing in digital assets and analytics capabilities.

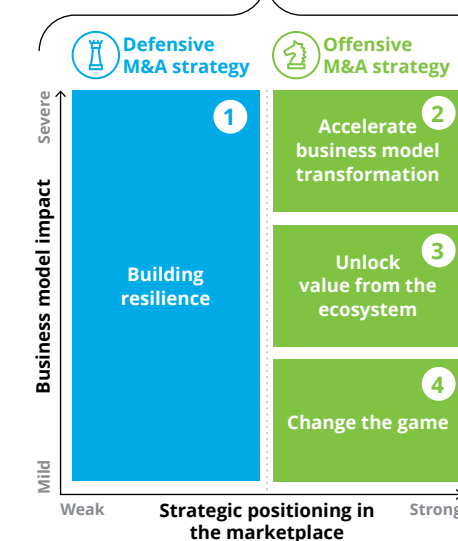
Customer-centric business models

- Customers are increasingly expecting an elevated customer experience, forcing investment in analytics and new product development.
- Convergence of insurance with digital health platforms is giving rise to new customer product categories and untapped market segments.

Emerging talent model

- Pressure on growth is forcing insurers to develop innovative operational solutions.
- This is leading to investment and hiring of skilled workforce in new areas such as digital, cloud, automation, risk controls, and customer analytics.
- Insurers need to foster a flexible and agile workplace culture for such fresh talent to thrive.

CEO priorities



Medium-term responses

- 3 New alliances**
Insurers could actively look for partnerships in the technology, health, and communication sectors to address needs for a holistic solution.
- 4 InsurTech segment**
After years of investment and scaling up, the InsurTech sector is at a stage of maturity where consolidation is to be expected; insurers could also focus on the new segment of InsurTech that uses third-party data to disrupt underwriting and pricing.

Technology, Media & Telecom

Observations

Technology, Media & Telecom (TMT) was the most active sector with \$877B worth of deals in 2022.

North America was the most active region for TMT deals, with \$558B worth of deals in 2022. Europe was at a distant second, with deals worth \$146B.

Among the subsectors, Technology (\$710B; 11,405 deals) accounted for 81% by value and 80% by volume of the overall deals within the sector.

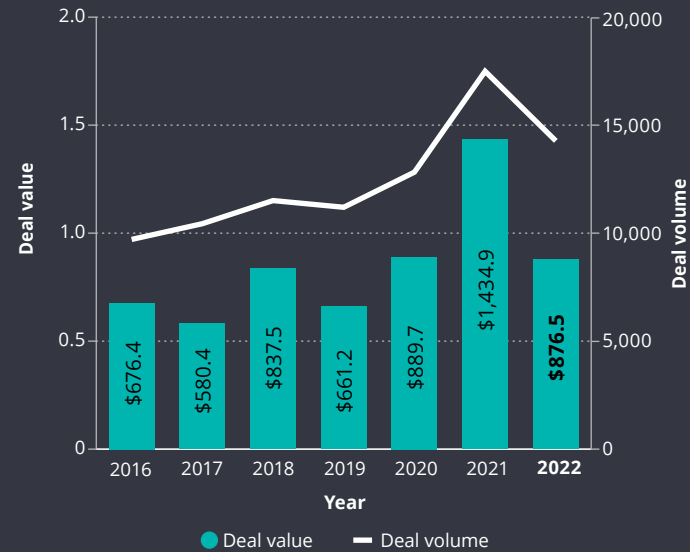
Private equity investors were highly active in the Technology subsector with deals worth \$263B, the highest among all the subsectors.

After many years of peak valuations, 2022 saw a significant reset in valuations, and as a result, many sought-after companies in segments like software-as-a-service (SaaS) could become attractive acquisition targets for corporates and private equity alike.

Across TMT sectors, divestitures are likely to make a comeback. Many TMT companies are aiming to become smaller and more focused. Bottom-line pressure and high interest from private equity firms can make it easier to divest in 2023.

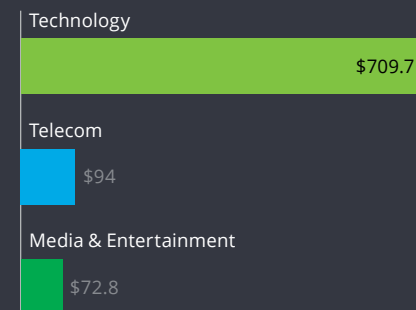
However, the year is also likely to witness continued scrutiny of M&A deals on competition grounds, increased regulations, and political interventions.

Technology, Media & Telecom deal value and volume (in trillions of US dollars)

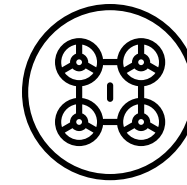
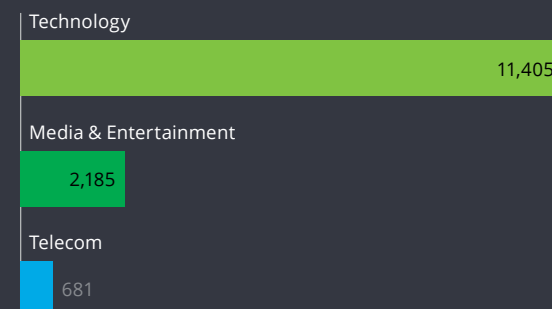


Source: Based on Deloitte's analysis of M&A data generated via the Refinitiv database on January 18, 2023.

Deal value by sector (in billions of US dollars)



Deal volume by sector



Technology

Forces shaping "new normal" conditions

Data sharing creates value but raises security concerns

- Cloud and digital transformation have led to data sharing within and across companies.
- Increased concern around data privacy and security creates a headwind for new business models.

Semiconductor chip shortage likely to last through 2023

- Digital transformation is driving demand for chip designs with innovative technologies.
- This increased demand, coupled with the pandemic, has resulted in a supply shortage likely to last until 2024.

Short-term responses

1 Consolidation across the cloud value chain

Technology companies need to improve their competitive positioning through holistic platform solutions as opposed to point-based solutions. This could drive M&A consolidation across the cloud value chain and supplier base.

2 Specialist software vendors

Scaled HR and other ERP specialist technology companies may look to expand their offerings to adjacencies such as ESG, mental health, and well-being.

Flexible working is forcing companies to innovate

- ERP, finance, HR, and other specialist software are becoming more strategic and less administrative.
- Businesses will need to innovate on functionalities and protection as remote working becomes more prevalent.

Green technology

- The ICT sector is under pressure to reduce emissions and make its products more sustainable. This is likely to spur greater investments in green data centers, fresh product design, and other sustainability areas.

Cross-environment integration and use of AI are driving investments

- Leading technology companies are investing heavily in creating interoperability across cloud and on-prem IT environments.
- AI is being used in IT operations (AIOps) to orchestrate workloads and automate issue detection and resolution.

CEO priorities



Medium-term responses

3 Proliferation of alliances

Technology is driving innovation across all sectors, and technology companies could explore alliances and JV models as an alternative pathway to access opportunities arising from technology-enabled convergence across sectors.

4 Frontier investing

The technology sector is likely to drive innovation through investments in green data centers, material science, spatial computing to drive augmented reality/virtual reality (AR/VR), AI, quantum computing, and many others.



Media & Entertainment

Forces shaping "new normal" conditions

Competition in D2C could drive spending on exclusive content creation

- Proliferation of streaming platforms is resulting in increased churn, forcing providers to tailor content and pricing models.
- Saturation in the US market is driving streaming providers to push further into international markets.

Data integration should create value

- DTC content creates the ability for companies to gather additional customer information.
- Data integrations across different offerings will enable a unified view of the customer that will drive content recognition and increase ad value.

Generational divide regarding alternative types of entertainment

- Gen Zs have higher preference for video gaming and user-generated content over traditional TV and movies.
- Increased preference for user-generated content changes consumption patterns and gives rise to new platforms.

Socially conscious media

- The media sector is directly exposed to shifts in social trends, and there is heightened customer pressure for the sector to become, as well as to produce content that is, socially aware, equitable, and diverse.

Metaverse to drive convergence in content

- Media and entertainment companies will be central to the metaverse, which will result in a convergence in traditional video content, video games, technology, and advertising.
- Immersive franchises with owned intellectual property will be able to create deep engagement and new monetization mechanisms.

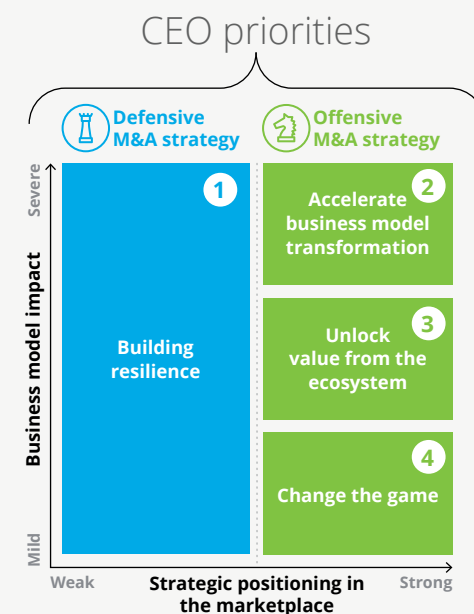
Short-term responses

1 Customer retention

Companies could use M&A activities to secure premium content, acquire and retain customers, and bolster technological capabilities.

2 Investment in new capabilities

To capitalize on the disaggregation of traditional distribution networks resulting from migration to D2C media, M&E companies should acquire new capabilities to allow them to capitalize on their new relationship with the customer.



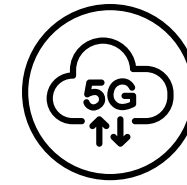
Medium-term responses

3 Alliances and partnerships

Emerging areas such as the metaverse are increasingly dependent on multiparty marketplaces and ecosystems that span content creators, platforms, and consumers. The need for scale across customers, platforms, franchises/content, and technology is likely to drive landmark partnerships in the future.

4 Future portfolio

Advances in technologies, such as AI and machine recognition, are rapidly changing the media production and consumption landscape and are likely to spur greater investments in these areas.



Telecom

Forces shaping "new normal" conditions

Governments driving the growth of global fixed wireless access (FWA) connections

- Regulators now view wireless as an acceptable alternative to wired, and governments have increased funding of broadband, resulting in more operators considering 5G-enhanced FWA.

5G gaining traction

- Global carriers are expected to show distinct 5G performance improvements in the coming months.
- Improved performance will result in increased demand for 5G-enabled devices and service.

Short-term responses

1 Competition for telecommunications infrastructure assets

Both financial and strategic buyers are competing for infrastructure assets; carriers will likely divest nonpriority assets, potentially including large-scale data centers, to fund other initiatives (e.g., 5G, IoT).

2 Telecom companies will continue to divest media assets

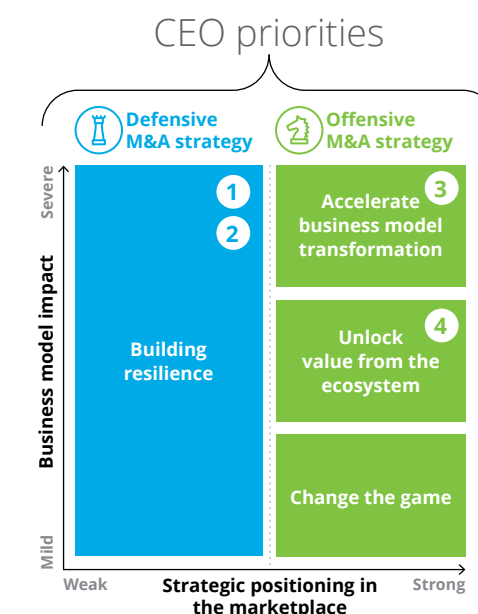
Following a run on acquisitions of media companies, telecom companies are refocusing on core capabilities.

Subscriber growth and smartphone adoption likely to be sustained at elevated levels

- Underpenetrated demographics (under age 13; 50 years or older) are likely to gain net new subscribers and increase use of smartphones to facilitate remote learning and video calling.
- Government subsidies are providing for connectivity needs.

Metaverse growth and cloud migration to drive traffic volume increase

- Telecommunications infrastructure and service providers are likely to benefit from greater traffic (20x by 2032) across networks, driven by metaverse applications; however, ability to monetize increased traffic remains challenging.



Medium-term responses

3 Adoption of 5G and cloud

Greater adoption of 5G should drive new products and services and, in turn, could spur telcos to acquire new capabilities, such as ones to make cloud migration more feasible, and accelerate adoption of multi-cloud environments.

4 Partnerships

Telecom companies may increasingly partner with their peers as an alternative to M&A to drive operational efficiency and increase investment in areas like fiber to the home (FTTH). In addition, they should also explore cross-sector partnerships with the health and financial sectors to drive new consumer opportunities.

Conclusion

In the past decade, leaders had to navigate their companies through momentous change, from the great financial crisis to the pandemic. The months and years ahead do not promise an easy ride; the ongoing geopolitical tensions and economic challenges will likely require corporate leaders to display vision and decisiveness. They may be expected to inspire their organizations to embrace change in a way that opens new strategic possibilities and inspires trust.

The importance of M&A as an enabler of change has been demonstrated by the record-breaking activities during one of the most difficult times in business history. Looking ahead, we anticipate traditional M&A, as well as alternatives such as alliances and partnerships, to not only play a pivotal role but also evolve to meet new expectations and conditions. Successful companies will heed the lessons from the past while remaining resolutely focused on the horizon.

Contributors

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